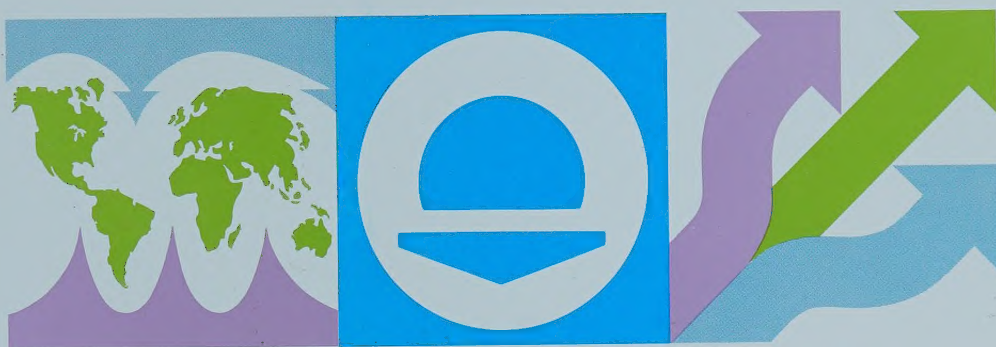
Canadian sub



AMERICAN STANDARD

1967 REPORT TO SHAREHOLDERS

Financial Highlights

	1967*	1966 As restated	1966 As previously reported
Sales	$599,807,000	$568,991,000	$568,991,000
Income before extraordinary item	13,350,000	10,347,000	10,347,000
Per common share	1.30	1.01	1.01
Net income (loss)	13,350,000	(7,553,000)**	10,347,000
Per common share	1.30	(.78)	1.01
Dividend per common share	1.00	1.00	1.00
Depreciation	21,245,000	19,628,000	19,628,000
Expenditures for property, plant and equipment	26,236,000	18,622,000	18,622,000
Working capital	179,511,000	154,392,000	154,392,000
Long-term debt	122,852,000	23,351,000	23,351,000
Common stockholders' equity	261,468,000	256,553,000	256,553,000
Per common share	25.90	25.64	25.64
Shares outstanding at year end	10,095,792	10,004,675	10,004,675
Number of common stockholders	53,739	61,292	61,292
Number of employees	38,975	37,100	37,100

*Includes operations of The Mosler Safe Company, from date of acquisition in May 1967.

**1966 net income has been restated to include charges to earned surplus in accordance with Opinion No. 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants which became effective in 1967.

AMERICAN STANDARD

1967 REPORT TO SHAREHOLDERS

DIRECTION 2000—The bathtub, lavatories, floor, toilet enclosure and walls of this striking bathroom are all made of plastic—part of the new American-Standard Direction 2000 series of bathrooms.

LETTER TO SHAREHOLDERS

For American-Standard, 1967 was a year of change and preparation for a greater future.

Our earnings increased to $1.30 in 1967. As shown in the Financial Highlights on the preceding page, we have restated 1966 earnings in accordance with a new Accounting Principles Board Opinion. As previously reported, earned surplus was charged with $17,900,000 resulting from a revaluation of certain facilities and operations. This charge has been reclassified as an extraordinary charge against income and does not represent any change in the financial position of the company.

Our sales increased 5% from $569,000,000 in 1966 to $600,000,000 in 1967. A breakdown of these figures shows that American-Standard traditional operations domestically were $25 million below 1966, but sales in this area improved in the last six months of 1967, largely because of the recovery in housing starts throughout the country. American-Standard traditional operations were about the same internationally. However, total sales and earnings increased each quarter of 1967 as a result of the recovery in U.S. housing starts, internal operating improvements and the acquisition of The Mosler Safe Company. Mosler, acquired in May, produced a new high for corporate sales volume and contributed importantly to our earnings for the year.

Reports on world-wide operations in our basic product groups, giving details on sales, markets and product development, are contained in the product description sections of this report.

With technical and business knowledge compounding at an increasingly higher rate, management has been laying the groundwork for a better company for the future. While we recognize there are large and growing profit opportunities in the expanding building products areas, we believe that it is important for us to broaden our earnings and sales base by participating in rapidly growing areas independent of building products. Through the operations of The Mosler Safe Company we now supply and service the fast growing office systems, security systems and business forms field. This has reduced from about 85% to 75% the share of our business accounted for by plumbing, heating and air conditioning.

At the same time, we have continued to improve and expand operations in our traditional fields to maintain our world-wide leadership:

- An agreement to acquire 20% of Compania Roca Radiadores, S.A. (subject to acceptance for registration by appropriate Spanish authorities) was made in order to give us an interest in the leading manufacturer of plumbing, heating and air conditioning in Spain.
- In Mexico we added to our product lines by acquiring facilities to produce plumbing fittings.
- In Greece our new plant for vitreous china fixtures was started up on schedule.

In U.S. operations:

- We began production of a fine line of stainless steel sinks.
- We began marketing a new line of bathrooms, tubs and lavatories made from plastics.
- We doubled our heat exchanger production capability by moving into a new plant, and enlarged our air conditioning coil plant.
- We entered into a joint venture early in 1967 with Janss Corporation and Thousand Oaks Development Company (one of the real estate enterprises of William and Leon Lyon) for home building and land development in California, the beginning of a new area of business for us. In February 1968 we took the larger step of acquiring all of the several real estate and building enterprises of the Lyons.
- We expanded our research and development program to increase the flow of new products and product improvements.

We are improving the long-range efficiency and profitability of the company by a number of internal actions:

- We have broadened the decision-making responsibility to include more individuals, and we are providing greater opportunity and incentives for employees to use their fullest initiatives.
- We gave continued attention to simplification and standardization of product lines.
- We have embarked on a more aggressive advertising program that emphasizes the benefits to consumers resulting from our upgrading of heating, air conditioning and sanitary appliances.

- We accelerated international product coordination and development.
- We revised the company's corporate organization to recognize that American-Standard is a truly multi-national company and that each area can and must contribute to the whole.

We believe these and related programs, together with the dedication of our employees, will help make us a better company.

Financially, we funded the Mosler acquisition and other capital needs after the close of the fiscal year through an agreement to borrow $110,000,000, at 6½% interest and repayable over twenty-two years, from three insurance companies. This agreement leaves us with additional borrowing capacity for other sound and promising acquisitions.

Economically, 1967 was a mixed year. It started slowly, but domestic housing starts continued to move up during the year, and industrial purchasing improved late in the year. Overseas, little overall improvement was seen. American-Standard enters 1968 stronger, both internally and externally, than we approached 1967. We anticipate some improvement in housing starts overseas, expect housing starts domestically to be about the same as in 1967, and look for industrial product sales to improve over 1967. With this improvement, plus our internal programs to meet our objective of consistently increasing shareholder value, we feel that American-Standard will have a better year in 1968 than in 1967.

On behalf of our Board of Directors, we express our appreciation for the support of the people who own, work for, or are associated with the company. The continued loyalty of our shareholders, employees and customers is most gratifying.

By order of the Board of Directors,

Joseph A. Grazier

JOSEPH A. GRAZIER, CHAIRMAN

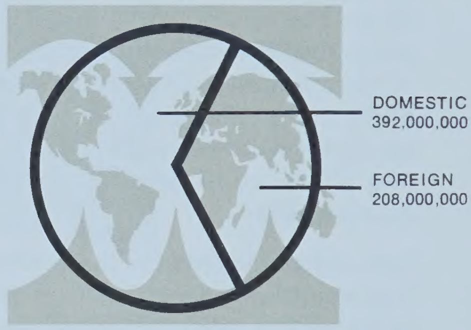
W. D. Eberle

W. D. EBERLE, PRESIDENT

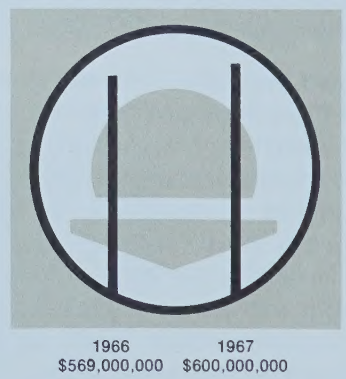
February 15, 1968

Sales at a glance

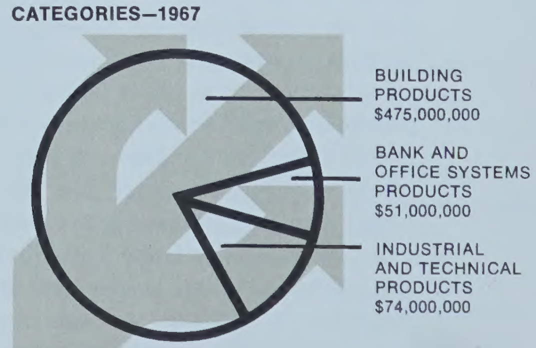
U.S. AND FOREIGN—1967



TWO-YEAR COMPARISON



MAJOR PRODUCT CATEGORIES—1967



BUILDING PRODUCTS

Emphasis Increases on Marketing and Product Development

Sales of American-Standard building products throughout the world in 1967 amounted to $475,000,000, and represented approximately 79% of the company's total sales. More than 40% of building products sales were from international operations.

American-Standard building products include plumbing fixtures and fittings, warm air and hydronic heating equipment, residential, commercial and industrial air conditioning equipment and ventilating equipment. They are used in most countries of the world in buildings of all types, from single-family homes to the largest commercial and industrial structures in both new construction and in modernization.

Although the function of these products is to provide sanitation, personal comfort and convenience to the people using a building, the ultimate users seldom have the opportunity to specify the product benefit levels and brands they desire. As a result, plumbing, heating and air conditioning products are frequently selected on the basis of providing only minimum functions at the lowest possible costs.

American-Standard is moving to meet this situation in three main directions: increased education of the ultimate user of our products, new marketing techniques and approaches, and the development of new products to bring new benefits to owners and users. Progress was made in all three areas in 1967. In the plumbing field this included: our entry into the plastic bathroom fixture business; the introduction of a toilet which operates with one-third less water than normal; the introduction in Europe of a new line of fixtures based on the Cornell University study of plumbing fixtures that was sponsored by American-Standard; and continued intensive development work on some completely new concepts for bathrooms which are planned for market introduction in the near future. In the heating, air conditioning and ventilating area, product development included: the introduction of a new unit for conditioning the air in schoolrooms; a self-contained unit for individual room heating and cooling in hotels, motels and other multi-room structures; a make-up air heater for effective ventilation of industrial buildings; a gas-fired residential furnace with solid state controls; roof-top air conditioning units; split system air conditioning units for commercial installations; and a completely new line of gas boilers for a major penetration of the fast-growing gas appliance market in the United Kingdom.

Product development in Europe, both in the plumbing and the heating and air conditioning fields, is now being carried forth on a continental, rather than a country-by-country, basis in anticipation of more and more integration of the European market.

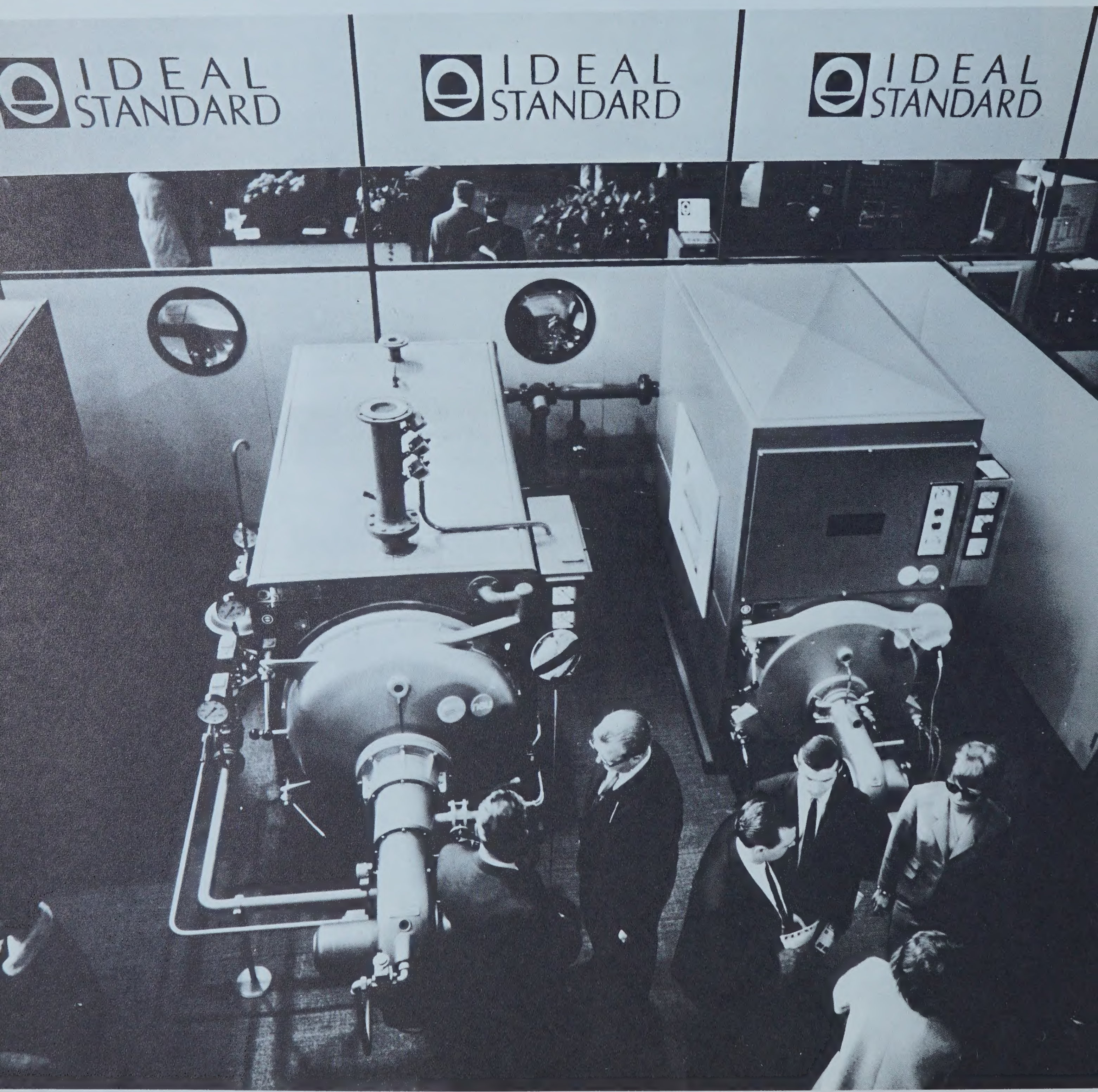
In the United States, new advertising agencies were selected by both the consumer and the industrial products groups as part of the program for expanded product education for customers. New marketing efforts begun during the year included the establishment of a unit to market bathroom accessories, including toilet seats, through department stores and specialty shops in addition to traditional outlets.

Our air conditioning coil production facility was doubled in size during the year. We made an investment in F. W. Eversley & Co., Inc., a Harlem-based contracting firm active in both rehabilitation work and new construction.

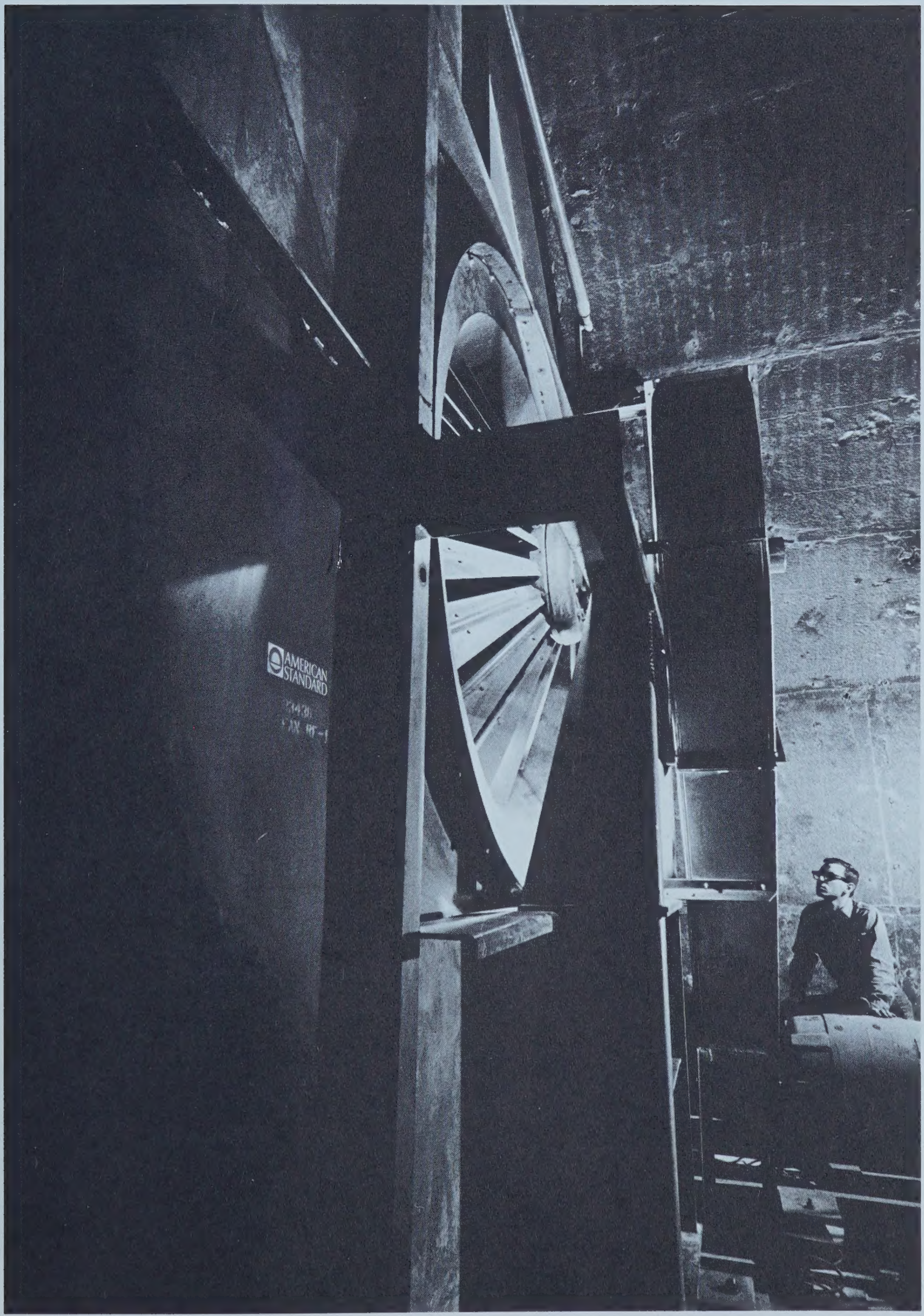
The new "water-saver" toilet, which uses one third less water than normal, can be easily installed in existing bathrooms as well as new ones.

Two of the advertisements in the campaign designed to inform consumers of the specific benefits of individual plumbing fixtures so they can more knowledgeably select products for their bathrooms in either new construction or modernization. The campaign was prepared by Foote, Cone and Belding.

A display of boilers by the German Company at a trade show attracts much attention.



The air conditioning of the new and distinctive Manufacturers and Traders Trust Company bank building in Buffalo uses American-Standard equipment exclusively. This huge fan is part of the system.



BUILDING PRODUCTS

Air Conditioning Equipment

Central Residential Systems
- Packaged Systems
- Split Systems

Large Building Equipment
- Coils
- Compressors
- Condensers
- Dehumidifiers
- Evaporators
- Fan Coil Units
- Humidifiers
- Liquid Chillers
- Ventilators

Controls

Bathroom Products

Bathtubs
Bidets
Dental Lavatories
Fittings
Lavatories
Shower Receptors
Toilets
Toilet Seats

Heating Equipment

Baseboard Panels
Boilers, Steel and Cast Iron (all fuels)
Burners, Oil and Gas
Coils
Controls
Connectors
Electric Heating
- Baseboard
- Resistance
- Supplemental Units

Furnaces—Oil, Gas, Electric
Heat Pumps
Radiators

Kitchen Equipment

Food Waste Disposers
Sinks

Plumbing Products

Bathroom (see above)
Drinking Fountains
Fittings
Kitchen (see above)
Laundry Trays
Lavatories
Medical
- Baths—Special Purpose
- Bedpan Steamers
- Hydrotherapy Showers
- Lavatories—Special Purpose
- Sinks—Special Purpose
- Tables—Laboratory and Autopsy
- Toilets—Special Purpose

Sinks
- Bar
- Pantry
- Service

Toilets
Urinals
Water Softeners

BANK, SECURITY AND OFFICE SYSTEMS

Mosler Sees Growth Potential in New Areas

In the eight months in which it operated as a subsidiary of American-Standard, Mosler contributed $51,000,000 of sales from its U.S. and international operations, or about 9% of total sales.

From the time of its founding in 1852 until 1960, The Mosler Safe Company concentrated its efforts in the safe and bank security equipment business, and earned both leadership and renown in the field. Beginning in 1960 it branched out into a variety of new fields. By 1967 these new ventures had more than doubled the annual sales volume achieved prior to 1960. While sales to banks and the financial community will continue to rise, much of the company's future growth is expected to come from other areas. Specific growth areas are graphic arts, including business forms; electronic alarm and security systems for commercial and industrial installations; information systems, including data storage and retrieval; and decorator-styled business furniture and office accessories.

The markets for these products include, in addition to banks and other financial institutions, offices, laboratories, schools, libraries, technical centers and all other operations which involve the collection, storage, protection and retrieval of information and valuables.

Mosler is headquartered in Hamilton, Ohio. It employs about 4,000 people, and operates plants and sales and service offices in a number of cities throughout the United States. It also carries on production operations in Mexico, has affiliated companies in Canada and Japan, and distributes its products throughout the world.

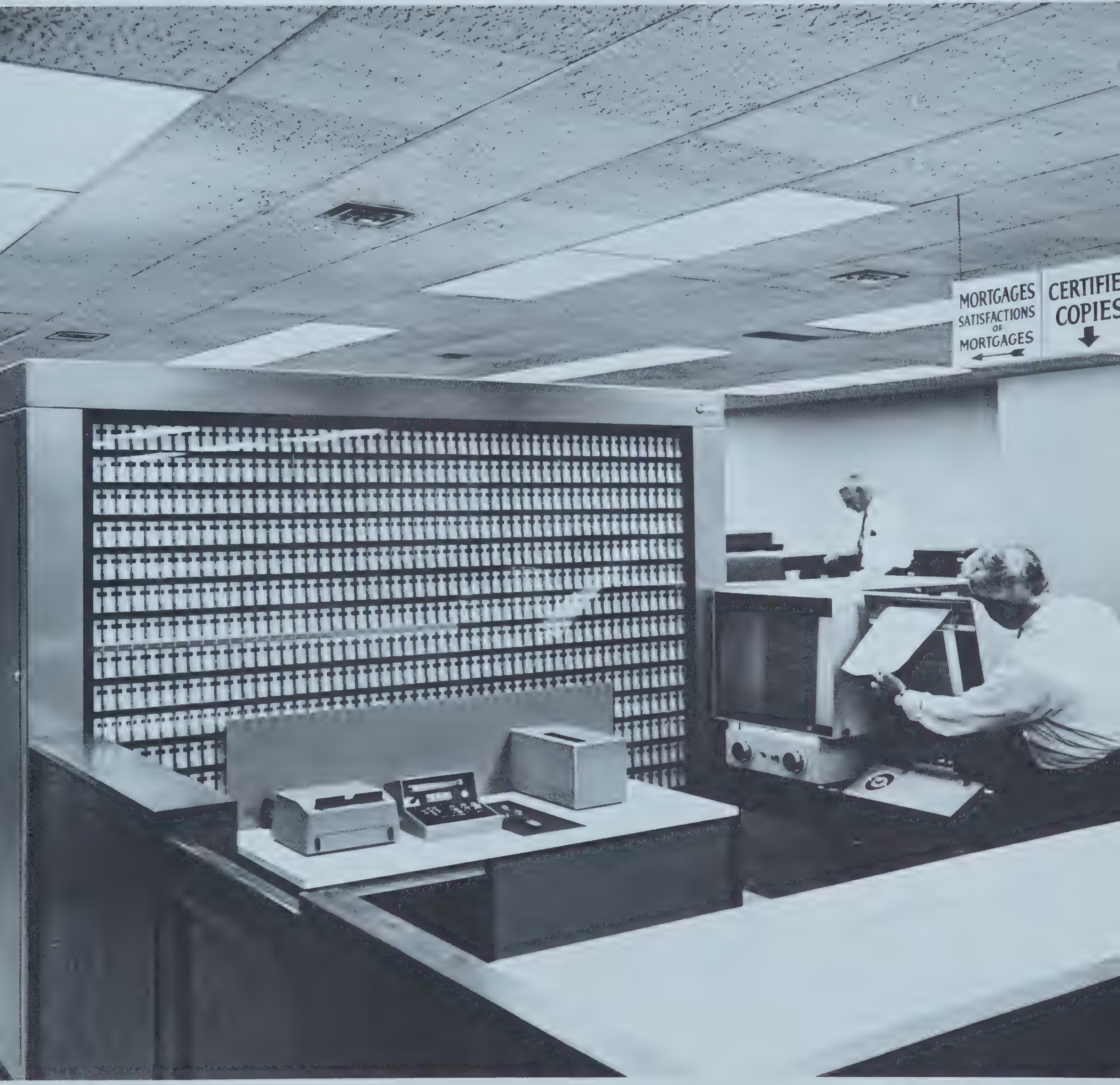
A major new business area was entered by Mosler in 1967 with the installation of its first Information System MIS-410, a family of automatic information retrieval and disseminating systems. The first system, for Nassau County, Long Island, New York, can store and retrieve 200,000 documents in a single file unit occupying only 20 square feet of floor space. The system utilizes microfilming, television and modern copying techniques.

Drive-in T.V. equipment for financial institutions continues to be a strong growth area for Mosler. Pioneered in 1956, Auto-Banker and an advanced second generation, TellerVue, enable tellers and drive-in customers to see and talk to each other by closed-circuit television and an audio system. Transactions are swiftly sent back and forth by a pneumatic tube system. Because of the initial success and continuing growth of auto-banking systems, the Airmatic Systems Division has almost doubled its manufacturing capacity by moving into a new plant in Wayne, New Jersey.

The largest single order ever handled by Mosler was received during the year from a major midwestern bank for the design, manufacture and installation for the security, fire alarm and pneumatic tube systems for the bank's new 60-story building. The project is to be completed in 1969.

Mosler operations today extend far beyond the durable goods lines of record safes and bank vaults it furnishes to the business and banking community. Through its new activities, Mosler now sells supplies and services that amount to 31% of its total volume. Plans to produce more diversified lines of both durable and consumable products to serve a larger variety of expanding commercial and industrial markets provide Mosler with additional growth potential.

The first Mosler Information System was installed for Nassau County, Long Island, New York. Here a man gets a print copy of one of the micro-filmed documents stored in the system and electronically retrieved in seconds.


MORTGAGES
SATISFACTIONS
OF
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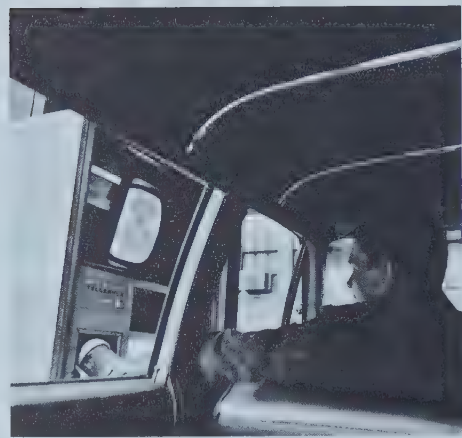
COPIES



A combination of television, with sound, and pneumatic tubes permits the teller (above) to serve customer (below) who remains in his auto at a point remote from the teller. One teller can serve several remote points.

Beautiful bank and office furniture can be installed quickly with minimum disruption to operations.

One of the famous Mosler bank vault doors in a final stage of manufacture.

MOSLER PRODUCTS FOR BANKS AND OFFICES

Bank Equipment

- Furniture
  - Bank Counters
  - Check Desks
  - Coupon Booths
  - Planters
  - Railings
  - Swing Way Seats
- Night Depositories
- Printing
  - Checks, Checkbooks
  - Forms
  - Stationery
- Remote Transaction Systems
- Security Equipment
  - Alarm Systems
  - Camera Surveillance Equipment
- Vault Equipment
  - Doors
  - Daygates
  - Locks
  - Safe Deposit Boxes & Lockers
  - Ventilators
  - Miscellaneous Accessories
- Windows
  - Drive-Up
  - Walk-Up

Graphic Arts

- Advertising Printing
- Checks
- Continuous Forms
- Stationery

Information Systems Equipment

- Document Retrieval
- Tailored Systems

Security and Office Systems Equipment

- Dropositories
  - Books
  - Collections
- Furniture and Accessories
  - Credenzas
  - Letter Trays
  - Shelving
  - Waste Baskets
- Files
  - Insulated
  - Rotary
  - Side
- Locks
  - Combination
  - Delayed Action
  - Key
  - Time
- Pneumatic Tube Transportation Systems
- Safes
  - Ledger Desk
  - Money
  - Record
  - Wall

INDUSTRIAL AND TECHNICAL PRODUCTS

New Production Facilities Completed;
New Markets Entered

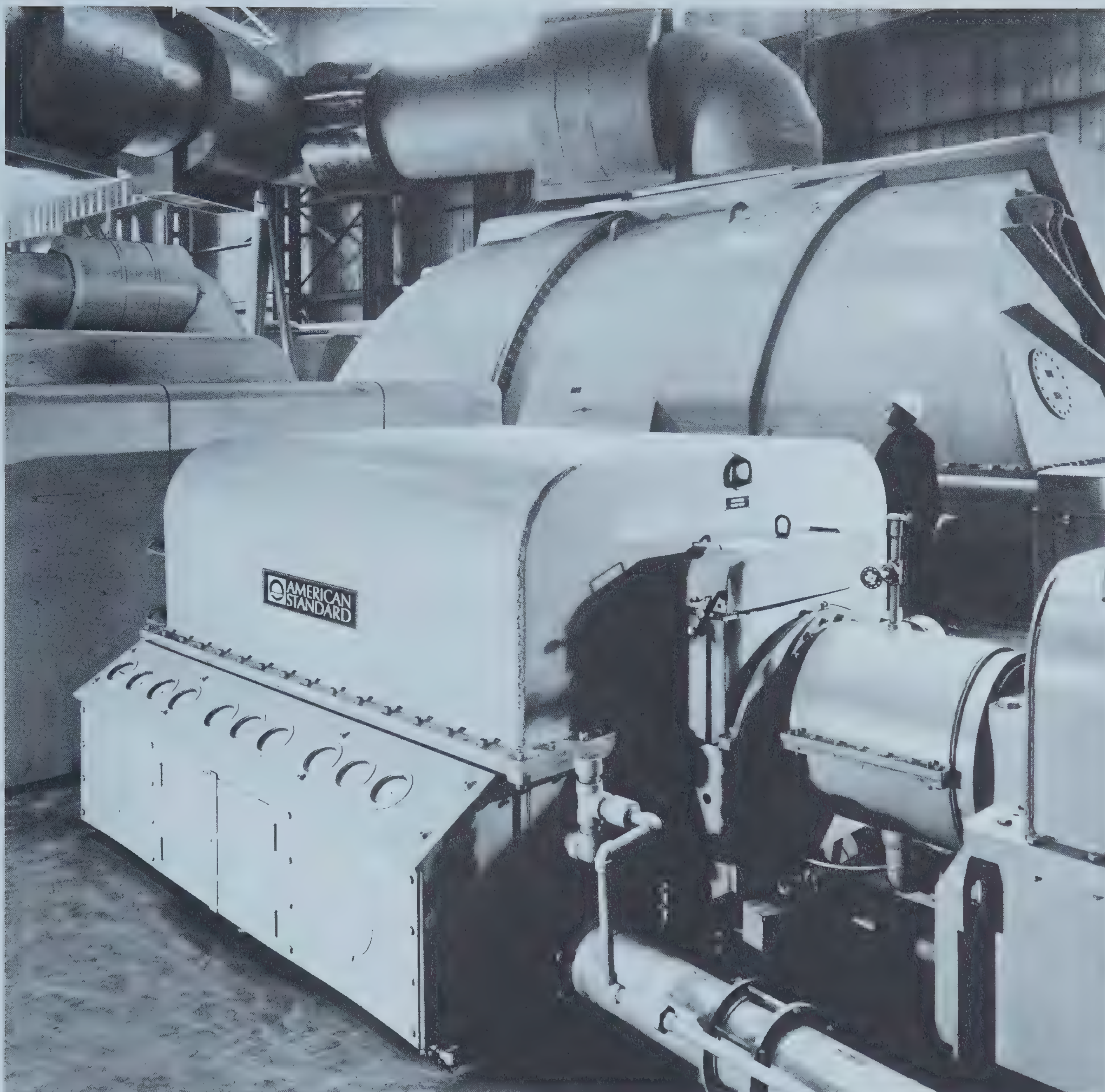
American-Standard sales of industrial and technical products in 1967 amounted to $74,000,000, approximately 12% of the company's total sales.

We participate in a limited number of the many industrial and technical products markets, but we are an important factor in specific areas and we plan substantial and steady growth. The areas in which we operate include gas handling and cleaning equipment, shell and tube heat exchangers, fluid drives, refrigeration and air conditioning controls, gauges indicating pressure, temperature or rate of flow, appliance valves, thermocouples, pitot tubes, switches and pig iron. Many of these products deal basically with heat, fluids and gases, elements with which American-Standard has traditionally been associated. Markets served include utilities, auto and appliance makers, processing industries, transportation and refrigeration.

In the heat exchanger business, 1967 was a year of preparation for expansion of operations into the chemical and process industries market, a rapidly expanding market which we have not previously served. Preparations included the moving of production operations into a new, larger plant, and the development and testing of exchangers specifically designed for the new market. Production in the new plant started in December, several months ahead of schedule, and some of the new products are already in the field.

The use of fluid drives in modern power plants is increasing, and a number of sizable orders were received during the year. Development of a "Marine" heavy duty coil was completed, and orders were received for both Navy and Merchant Marine vessels. Erection and initial start-up operations were completed in 1967 on an electrostatic precipitator of 99.6% efficiency for collection of boiler fly ash for a midwestern utility plant.

A significant development in standard fans was initiated and consummated in 1967, permitting introduction in 1968 of a new line of fans which consolidates five previous types into one line. This program has simplified the standard fan line, effected cost reduction, and lowered inventory requirements by increased interchangeability of parts.



This huge fan is part of the power generation equipment at Union Electric in St. Louis, Missouri.

One of the largest fluid drives ever built is also installed in the new power plant of Union Electric.

INDUSTRIAL AND TECHNICAL PRODUCTS

Air Cleaning Equipment
Air Washers
Dust Collectors
Electrostatic Precipitators

Air Handling Equipment
After Coolers
Blowers
Compressors
Fans
Exhaustors

Industrial Equipment
Heat Exchangers
Hydraulic Couplings (Fluid Drive)
Merchant Pig Iron
Refrigeration Equipment
  Plant and Process
Utility Sets (Belt-Drive & Direct-Drive)

Instruments
Gauges
  Industrial
  Laboratory
  Liquid Level
  Miniature
  Pressure
  Temperature
Pitot Tubes
Thermocouples
  Junction Boxes
  Metallic-Sheathed, Insulated Wire
Thermometers
  Industrial
  Laboratory
  Pocket
  Remote Indicating
Thermostats
  Heating and Air Conditioning
  Coolant Control
Transducers
Switches
  Heavy Duty, Pressure or
    Temperature Actuated
Valves
  Air Conditioning
  Appliance
  Heating
  Refrigeration
  Vending Machine

Final assembly of a shell and tube heat exchanger at the new plant near Buffalo, N. Y.

MANAGEMENT

W. D. Eberle, president of American-Standard, was named chief executive officer in April, succeeding Joseph A. Grazier, who continued as Chairman of the Board.

A. R. Fisher, former head of Johns-Manville Corporation, who brought to our Board deep and broad knowledge of the building industry, retired after eight years of service as a Director.

Frederic N. Schwartz, Chairman of the Executive Committee and former chief executive of Bristol-Myers Company, was elected to the Board.

John Mosler, former Chairman of The Mosler Safe Company, who joined the Board following the acquisition of Mosler, resigned early in 1968 to pursue other interests.

During the year our research and development activities were reorganized and redirected with world-wide responsibility for the results of the function being placed in the newly created position of vice president, research and development, to which Milton B. Hollander was elected.

William Lyon, who joined American-Standard in connection with our acquisition of his real estate and building enterprises, has been named the head of all of the company's ventures in the land development and construction fields.

John K. Miller, executive vice president, retired after 38 years of service and many contributions to the development of our international operations.

Other changes included:

Gerald F. Gamber, vice president, personnel, retired. Gardiner S. Dutton was elected treasurer; and Joseph J. Decker was named head of Manufacturing Services Division.

William A. Marquard, Jr. was elected president of The Mosler Safe Company; Donald R. Meckstroth was named general manager of the Plumbing and Heating Division; Wesley E. Gatewood was named general manager of the Amstan Supply Division; Robert L. Cleveland was named president of the Canadian Company; Nick D. Petrovich was named managing director and Adam E. McClellan chairman of the Mexican Company.

EMPLOYEES

American-Standard has approximately 90 separate contracts with labor unions. Of these, 27 expired in 1967. All were renegotiated without work stoppages except in the cases of one U. S. and one Canadian plant where strikes of several weeks duration took place. Nineteen contracts will expire in 1968, including several major ones.

An employee stock purchase plan was instituted in 1967 subject to stockholder approval at the 1968 annual meeting. Open to all employees in the United States and Canada, the plan permits an employee to authorize payroll deductions over a two-year period, at the close of which he may elect to use the accumulated money to purchase shares of stock at a price established at the beginning of the deduction period. In response to the first offering, 5,226 employees subscribed for a total of 146,091 shares. The greater employee equity in the corporation which will result from this plan should benefit all shareholders.

SALES

Sales of U.S. operations and foreign operations were as follows:

	1967	1966
U. S.	$391,910,000	$368,464,000
Foreign	207,897,000	200,527,000
	$599,807,000	$568,991,000

Sales of The Mosler Safe Company, including foreign operations, amounted to $51,249,000 from the date of its acquisition in May 1967.

EARNINGS

Earnings for 1967 totaled $13,350,000 or $1.30 per common share. Comparative earnings in the U.S. and foreign operations were as follows:

	1967	1966 Restated
U. S.	$ 5,684,000	$ 4,784,000
Foreign	7,666,000	5,563,000
Income before extraordinary item	13,350,000	10,347,000
Extraordinary item	—	17,900,000
Net income (loss)	$13,350,000	$ (7,553,000)

The increase in earnings before the extraordinary item was mainly due to the inclusion of The Mosler Safe Company's operations since date of acquisition and the World War II war loss recovery received in 1967 included in foreign earnings. The investment tax credit included in net income amounted to $340,000 and $323,000 in 1967 and 1966, respectively.

DIVIDENDS

Dividend payments on common stock in 1967 were continued at the rate of $1.00 per share, the same rate as in 1966. Total dividend payments on the common stock in 1967 amounted to $10,047,000 and to $10,000,000 in 1966. Dividends of $252,000 and $286,000 were paid to the holders of preferred stock in the respective years.

PROPERTY, PLANT AND EQUIPMENT

The company expended a total of $26,236,000 for additions to, and improvements of, facilities in 1967. Of this amount $14,040,000 was spent in the United States and $12,196,000 was invested abroad. A comparative summary of property at December 31 follows:

	1967	1966
Land	$ 12,646,000	$ 11,426,000
Buildings	135,128,000	121,384,000
Machinery and equipment	256,910,000	228,395,000
	404,684,000	361,205,000
Less reserves	252,476,000	219,860,000
	$152,208,000	$141,345,000

WORKING CAPITAL

Working capital at the year end amounted to $179,511,000, an increase of $25,119,000 from 1966.

A comparative summary of working capital follows:

	1967	1966
U. S.	$117,464,000	$102,945,000
Foreign	62,047,000	51,447,000
	$179,511,000	$154,392,000

A consolidated statement of working capital is shown on page 20.

INVENTORIES

Inventories at the close of 1967 amounted to $141,654,000, an increase of $9,826,000 over 1966 after including Mosler's inventory of $18,672,000.

A comparative summary follows:

	1967	1966
Finished goods	$ 74,217,000	$ 68,608,000
Work in process	25,236,000	23,570,000
Raw materials	42,201,000	39,650,000
	$141,654,000	$131,828,000

LITIGATION

Last year we reported a Federal Grand Jury indictment and a companion government civil suit against the company, charging Sherman Act violations, including price fixing. The filing of private civil suits with respect to the same matters seeking to recover damages in unspecified amounts was reported. Since that time additional private civil suits, seeking like recovery, have been filed. We have pleaded "not guilty" to the indictment and have denied charges in all civil actions in which we have filed pleadings. No provision has been made in the financial statement for possible liability. We cannot predict when the cases will come to trial.

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

American Standard Inc.

	Year ended December 31		
	1967	**1966**	
		As restated (Note 1)	As previously reported
Income:			
Sales (see page 16)	$599,807,000	$568,991,000	$568,991,000
War loss recovery (non-taxable)	1,246,000	—	—
Other	1,993,000	904,000	904,000
	603,046,000	569,895,000	569,895,000
Cost and expense:			
Cost of goods sold	470,826,000	460,250,000	460,250,000
Selling and administrative	92,071,000	77,570,000	77,570,000
Research and development	11,525,000	10,050,000	10,050,000
Interest	5,774,000	2,278,000	2,278,000
	580,196,000	550,148,000	550,148,000
Income before taxes on income	22,850,000	19,747,000	19,747,000
Taxes on income, including deferred taxes 1967—($1,176,000) 1966—$75,000	9,500,000	9,400,000	9,400,000
Income before extraordinary item	13,350,000	10,347,000	10,347,000
Extraordinary item:			
Estimated expenses and losses (net of related taxes) resulting from revaluation of certain product lines and facilities and discontinuance of the operations of Gulfstan Corporation	—	17,900,000	—
Net income (loss) (see page 16)	13,350,000	(7,553,000)	10,347,000
Earned surplus:			
Balance at beginning of year	169,803,000	187,642,000	187,642,000
	183,153,000	180,089,000	197,989,000
Less:			
Estimated expenses and losses (net of related taxes) resulting from revaluation of certain product lines and facilities and discontinuance of the operations of Gulfstan Corporation	—	—	17,900,000
Cash dividends:			
Preferred	252,000	286,000	286,000
Common ($1.00 per share)	10,047,000	10,000,000	10,000,000
	10,299,000	10,286,000	10,286,000
Balance at end of year	$172,854,000	$169,803,000	$169,803,000
Per common share:			
Income before extraordinary item	1.30	1.01	1.01
Extraordinary item	—	(1.79)	—
Net income (loss)	1.30	(.78)	1.01

Depreciation included in the above income statement amounted to $21,245,000 and $19,628,000 for 1967 and 1966, respectively.

Reference is made to accompanying notes on page 21.

CONSOLIDATED BALANCE SHEET

American Standard Inc.

Assets	At December 31 1967	1966
Cash	$ 42,831,000	$ 19,583,000
Marketable securities, at cost which approximates market	1,325,000	1,786,000
Accounts receivable, less allowance for losses (1967, $2,594,000; 1966, $2,233,000)	106,608,000	83,194,000
Inventories (see page 16) (Note 2)	141,654,000	131,828,000
Prepaid expenses	8,623,000	6,468,000
Total current assets	301,041,000	242,859,000
Investments in associated companies and unconsolidated subsidiaries (Note 1)	6,771,000	5,099,000
Property, plant and equipment, at cost less accumulated depreciation and provision for losses on disposal (1967, $252,476,000; 1966, $219,860,000) (see page 16)	152,208,000	141,345,000
Future income tax benefits	6,927,000	9,864,000
Excess of cost over net assets of business acquired (Note 1)	62,827,000	--
Other assets	8,787,000	6,354,000
	$538,561,000	$405,521,000

Liabilities	At December 31 1967	1966
Loans payable	$ 30,811,000	$ 9,829,000
Accounts payable and accrued liabilities	81,691,000	68,752,000
Taxes on income	9,028,000	9,886,000
Total current liabilities	121,530,000	88,467,000
Loans payable, less current portion (Note 3)	122,852,000	23,351,000
Reserve for expenses resulting from revaluation of certain product lines and facilities	6,954,000	7,677,000
Deferred taxes on income (arising principally from accelerated depreciation)	5,639,000	5,873,000
Minority interests in subsidiaries	4,950,000	5,099,000
Reserve for foreign operations (Note 1)	11,573,000	14,906,000
Capital Stock and Surplus		
Preferred stock—7% cumulative; $100 par value, redemption price and preference on liquidation $175 per share; authorized and outstanding 35,949 shares	3,595,000	3,595,000
Common stock—$5 par value; authorized 15,000,000 shares; issued 11,709,934 shares	58,550,000	58,550,000
Capital surplus (Note 5)	59,314,000	58,791,000
Earned surplus (Note 3)	172,854,000	169,803,000
	294,313,000	290,739,000
Common stock held in treasury, at cost (1967, 1,614,142 shares; 1966, 1,705,259 shares)	29,250,000	30,591,000
	265,063,000	260,148,000
	$538,561,000	$405,521,000

Reference is made to accompanying notes on page 21.

CONSOLIDATED STATEMENT OF WORKING CAPITAL Year ended December 31, 1967

American Standard Inc.

Source:		
Net income	$ 13,350,000	
Depreciation	21,245,000	
Disposals of property	8,259,000	
Additional long-term debt	109,500,000	
Exercise of stock options	1,864,000	
Decrease in future income tax benefits	2,937,000	$157,155,000
Disposition:		
Capital expenditures	26,236,000	
Net fixed assets of companies consolidated during 1967 (Note 1)	14,131,000	
Cash dividends	10,299,000	
Excess of cost over net assets of business acquired	62,827,000	
Increase in other assets	2,433,000	
Investments in associated companies and unconsolidated subsidiaries (net)	1,672,000	
Unrealized exchange losses charged to reserve for foreign operations (Note 1)	3,333,000	
Long-term notes becoming current liabilities	10,000,000	
Charged to reserve for expenses resulting from revaluation of certain product lines and facilities	723,000	
Other transactions	382,000	132,036,000
Increase in working capital		25,119,000
Working capital at beginning of year		154,392,000
Working capital at end of year		$179,511,000
Represented by:		
Current assets	$301,041,000	
Current liabilities	121,530,000	
		$179,511,000

Reference is made to accompanying notes on page 21.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

American Standard Inc.

1. Net income for the year ended December 31, 1966 has been restated to include charges to earned surplus in accordance with Opinion No. 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants which became effective in 1967.

   All subsidiaries are consolidated except subsidiaries in the development stage or subject to exchange restrictions. Investments in 50% owned companies are stated at cost plus equity in undistributed earnings. All other investments are stated at cost.

   In May 1967 the company purchased substantially all the common stock of The Mosler Safe Company. The excess of cost over net assets acquired amounted to $62,827,000, which is not being amortized. The operations of the company since the date of acquisition are included in the accompanying financial statements.

   Unrealized exchange losses principally in England and Brazil aggregating $3,333,000 were charged to the Reserve for Foreign Operations.

2. Inventories aggregating $43,769,000 at December 31, 1967 are stated on a last-in, first-out basis, which is less than current replacement cost. All other inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis.

3. Loans payable at December 31, 1967 (excluding 1968 installments included in "Current liabilities") are as follows:

United States	
5½% notes payable to banks, due February 9, 1968	$100,000,000
Loans due in various amounts to 1980, with interest ranging from 4% to 6½%	4,089,000
Foreign	
Loans due in various amounts to 1982, with interest ranging from 3% to 7%	18,763,000
	$122,852,000

   The company has agreed to borrow $110,000,000 from certain institutional lenders by issuing 6½% Promissory Notes due September 1, 1990, the proceeds of which will be used to liquidate the notes payable to banks. Subsequent to December 31, 1967, the company borrowed $20,000,000 under this agreement and renewed $80,000,000 notes payable to banks at 6% due May 1968. Among the restrictions contained in the loan agreement, the company must maintain net working capital, as defined, of not less than $150,000,000 and is restricted in the payment of cash dividends. Consolidated earned surplus not restricted at December 31, 1967 amounted to $13,051,000.

4. Pension expense for 1967 and 1966 was $3,798,000 and $2,181,000, respectively, which includes amortization of prior years' service cost over periods not exceeding thirty-eight years.

5. Under the company's Stock Option Plan, all options granted are exercisable on a cumulative basis over the life of the option. However, options granted after December 31, 1963 are exercisable only if (a) no previously granted options are held by the optionee or (b) previously granted and outstanding options held by the optionee are exercisable at prices lower than the price of the new option.

   Option prices may not be less than the fair market value on the date the option is granted, and options may not be granted after September 9, 1969.

   The company may deliver either unissued shares or shares acquired and held in its treasury.

   In connection with the acquisition of The Mosler Safe Company, the company granted to holders of stock options previously granted by Mosler, substitute stock options to purchase shares of common stock of the company.

   Details of shares under option at December 31, 1967 and transactions during the year follow:

	Company Stock Option Plan	Substitute Stock Options
Balance at January 1, 1967	170,810	—
Granted	132,500	125,866
Terminated or cancelled	(9,255)	(4,498)
Exercised	(37,995)	(53,122)
Balance at December 31, 1967	256,060	68,246
Price per share:		
Shares exercised	$13 to $23	$8 to $17
Outstanding at December 31, 1967	$13 to $30	$8 to $19
Shares exercisable	91,910	17,517
Available for future options:		
January 1, 1967	250,650	—
December 31, 1967	127,405	—

   The excess of the aggregate price for options exercised over the cost of the treasury shares issued, amounted to $523,000 and has been credited to capital surplus.

6. Under the Employees Stock Purchase Plan, which is subject to stockholder approval, the company may offer subscription rights to eligible employees to purchase up to 500,000 shares of the company's common stock. The first offering under the plan was made December 7, 1967 and employees accepting such offer subscribed to 146,091 shares at $26.18 per share, the fair market value of the stock on such date.

7. Reference is made to the paragraph on litigation on page 16 with respect to certain antitrust matters.

8. Subsequent to December 31, 1967, the company acquired the real estate enterprises of William and Leon Lyon by exchanging 350,000 shares of its treasury stock. The company may be required to issue an additional 50,000 shares contingent on certain stipulated future occurrences.

Report of Certified Public Accountants

The Shareholders and Board of Directors,
American Standard Inc.

We have examined the accompanying consolidated balance sheet of American Standard Inc. and subsidiaries at December 31, 1967, the related consolidated statement of income and earned surplus and the consolidated statement of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have also made a similar examination of the financial statements for the prior year restated as explained in Note 1.

In our opinion, the statements mentioned above present fairly the consolidated financial position of American Standard Inc. and subsidiaries at December 31, 1967 and 1966, the consolidated results of their operations for the years then ended and the source and disposition of their consolidated working capital for the year ended December 31, 1967, in conformity with generally accepted accounting principles applied on a consistent basis during the period, after restatement of 1966 as explained in Note 1.

New York, N.Y.
February 15, 1968

ARTHUR YOUNG & COMPANY

FIVE YEAR SUMMARY Dollar amounts in thousands except as indicated

American Standard Inc.

	1967	1966	1965	1964	1963
Sales					
U. S.	$391,910	$368,464	$351,257	$353,761	$342,962
Foreign	207,897	200,527	201,389	205,170	184,575
Total	599,807	568,991	552,646	558,931	527,537
Income before extraordinary item					
U. S.	5,684	4,784	7,949	7,496	4,178
Foreign (1967 includes war loss recovery)	7,666	5,563	10,444	13,174	12,497
Total	13,350	10,347	18,393	20,670	16,675
Per common share outstanding at each year end	1.30	1.01	1.81	2.03	1.64
Net income (loss)	13,350	(7,553)*	18,393	20,670	16,675
Per common share outstanding at each year end	1.30	(.78)	1.81	2.03	1.64
Dividends paid on common stock	10,047	10,000	10,019	10,018	8,747
Per common share	1.00	1.00	1.00	1.00	.80
Common stockholders' equity	261,468	256,553	274,501	267,268	256,457
Per common share	25.90	25.64	27.47	26.64	25.65
Working capital					
U. S.	117,464	102,945	108,670	102,532	97,632
Foreign	62,047	51,447	48,926	52,224	48,794
Total	179,511	154,392	157,596	154,756	146,426
Property, plant and equipment, net					
U. S.	88,829	76,665	85,074	89,238	93,752
Foreign	63,379	64,680	70,327	57,153	48,672
Total	152,208	141,345	155,401	146,391	142,424
Capital expenditures					
U. S.	14,040	6,617	7,412	7,367	12,467
Foreign	12,196	12,005	21,761	15,887	8,888
Total	26,236	18,622	29,173	23,254	21,355
Provision for depreciation					
U. S.	10,643	9,912	10,366	10,269	9,844
Foreign	10,602	9,716	8,351	7,210	6,414
Total	21,245	19,628	18,717	17,479	16,258
Employment costs					
U. S.	141,925	132,442	127,480	129,713	126,558
Foreign	79,560	76,945	74,376	69,340	60,253
Total	221,485	209,387	201,856	199,053	186,811
Number of employees					
U. S.	18,000	15,200	15,500	16,100	16,300
Foreign	21,000	21,900	21,700	20,700	19,600
Total	39,000	37,100	37,200	36,800	35,900

*Restated as explained in Note 1 to the financial statements.

AMERICAN STANDARD OPERATIONS

United States Operations

Divisions

AIR CONDITIONING DIVISION
206 Woodford Avenue, Elyria, Ohio
Robert J. Berkshire, *General Manager*

AMSTAN SUPPLY DIVISION
40 West 40th Street, New York, N. Y.
Wesley E. Gatewood, *General Manager*

CONTROLS DIVISION
5900 Trumbull Avenue, Detroit, Mich.

INDUSTRIAL AND TECHNICAL DIVISION
40 West 40th Street, New York, N. Y.
William H. Chaffee, *Corporate Vice President*

PLUMBING AND HEATING DIVISION
40 West 40th Street, New York, N. Y.
Donald R. Meckstroth, *General Manager*

TONAWANDA IRON DIVISION
River Road, North Tonawanda, N. Y.
Albert D. Bright, *General Manager*

Subsidiary

THE MOSLER SAFE COMPANY
1561 Grand Boulevard, Hamilton, Ohio
William A. Marquard, Jr., *President*

International Operations

Subsidiaries

IDEAL-STANDARD G. m. b. H.
Vienna, Austria

IDEAL-STANDARD S. A.
Brussels, Belgium
Guy van Zanten, *Managing Director*

IDEAL-STANDARD S. A.
Sao Paulo, Brazil
William A. Harris, *Managing Director*

AMERICAN-STANDARD PRODUCTS (CANADA) LIMITED
Toronto, Canada
Robert L. Cleveland, *President*

IDEAL-STANDARD de CENTRO AMERICA S.A.*
San Salvador, El Salvador
Carlos Arango, *Operations Manager*

IDEAL-STANDARD LIMITED
London, England
Eric D. Nicholson, *Managing Director*

IDEAL-STANDARD S. A.
Paris, France
Jean Paul Wallner, *Managing Director*

IDEAL-STANDARD G. m. b. H.
Bonn, Germany
Joachim Henschke, *Managing Director*

IDEAL-STANDARD, S. A. I.*
Athens, Greece
Vincent M. Curcio, Jr., *Managing Director*

IDEAL-STANDARD S. p. A.
Milan, Italy
Giambattista Zanchi, *Managing Director*

IDEAL-STANDARD S. A. de C. V.
Mexico City, Mexico
Nick D. Petrovich, *Managing Director*

IDEAL-STANDARD (HOLLAND) N. V.
Amsterdam, Netherlands
Cornelius Santifort, *Managing Director*

IDEAL-STANDARD A. G.
Dulliken, Switzerland
Max Ullrich, *Managing Director*

IDEAL-STANDARD ISI SANAYII A. S.*
Istanbul, Turkey
Sabahattin Sunguroglu, *Managing Director*

Associated Companies

APPLIED AIR CONDITIONING EQUIPMENT LTD.*
Melbourne, Australia
Sir Kenneth Luke, *Chairman*

SANITARY WARES MANUFACTURING CORP.*
Manila, Philippines
Ernesto V. Lagdameo, *Chairman and President*

**Operations not included in the consolidated financial statements.*

BOARD OF DIRECTORS

BOARD OF DIRECTORS

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Paul M. Augenstein, *Executive Vice President, American-Standard*
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W. D. Eberle, *President, American-Standard*
John C. Griswold, *Partner, Eastman Dillon, Union Securities & Co.*
John M. Kingsley, *President, Bessemer Securities Corporation*
George P. MacNichol, Jr., *Director, Libbey-Owens-Ford Glass Company*
Leonard P. Pool, *Chairman, Air Products and Chemicals, Inc.*
Frederic N. Schwartz, *Chairman, Executive Committee, Bristol-Myers Company*
Laurence C. Ward, *Executive Vice President, American-Standard*
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Herbert B. Woodman, *Chairman, Interchemical Corporation*

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Paul M. Augenstein, *Executive Vice President*
Laurence C. Ward, *Executive Vice President*

Frank J. Berberich, *Vice President*
James L. Briggs, *Vice President*
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William H. Chaffee, *Vice President*
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Milton B. Hollander, *Vice President, Research and Development*
Harry W. Siefert, *Vice President and Controller*
Gardiner S. Dutton, *Treasurer*

Joseph R. Allen, *Assistant Controller*
Frederick W. Jaqua, *Assistant Secretary*
John F. Warner, *Assistant Treasurer*

Henry H. Steiner, *Tax Counsel*

EXECUTIVE OFFICES
40 West 40th Street, New York, N. Y. 10018

STOCK TRANSFER OFFICES
Preferred and Common Stocks:
Office of the Corporation,
50 West 40th Street, New York, N. Y. 10018

Common Stock: (after April 1, 1968)
United States Corporation Company,
15 Exchange Place, Jersey City, N. J. 07302

REGISTRAR
Preferred and Common Stocks:
First National City Bank, New York, N. Y.

CERTIFIED PUBLIC ACCOUNTANTS
Arthur Young & Company, New York, N. Y.

COUNSEL
Sullivan & Cromwell, New York, N. Y.

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This is one of the new advertisements in the program to increase consumer knowledge of product benefits, discussed on page 5.

AMERICAN STANDARD